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FM AMEMBASSY MOSCOW  
TO RUEHC/SECSTATE WASHDC IMMEDIATE 6110  
INFO RUEHFT/AMCONSUL FRANKFURT IMMEDIATE 3063  
RHEBAAA/DEPT OF ENERGY WASHDC IMMEDIATE  
RUCPDO/DEPT OF COMMERCE WASHDC IMMEDIATE  
RUEATRS/DEPT OF TREASURY WASHDC IMMEDIATE  
RHEHNSC/NSC WASHDC IMMEDIATE

UNCLAS MOSCOW 013123

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SENSITIVE

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DEPT FOR EUR/RUS, EB/ESC/IEC, EB/CBA  
FRANKFURT FOR SUSAN STANLEY, BILL COTTER  
TREASURY FOR BAKER/GAERTNER  
NSC FOR TOM GRAHAM AND TRACY MCKIBBEN  
USDOC FOR 4231/IEP/EUR/JBROUGHER  
DOE FOR HARBERT/EKIMOFF/PISCITELLI

E.O. 12958: N/A

TAGS: [EFIN](#) [EINV](#) [ECON](#) [RS](#)

SUBJECT: PRICEWATERHOUSECOOPERS CAUGHT IN YUKOS NET

[1](#)1. (SBU) Summary. Russian Prosecutors at the Federal Tax Service (FTS) have brought a civil case against International accounting firm PriceWaterhouseCoopers (PWC) in connection with their role as outside auditor of the Russian oil company Yukos. In addition, the firm has been defending itself in Russian arbitrage court over the past six months against charges that its internal accounting practices are inconsistent with Russian law; this case is now in the final appeal stage before the Supreme Arbitration Court. PWC maintains that both cases are without substance, and has said it is willing to cooperate fully with Prosecutors. Civil charges have also been brought against PWC's lead Yukos accountant, Doug Miller (amcit), who is not currently under threat of arrest. At the firm's request, the Embassy is assisting PWC obtain appointments for senior PWC management with the GOR. The firm has otherwise not asked for further USG assistance, and wishes to be allowed to work this issue in private with the GOR. End Summary.

[1](#)2. (SBU) According to PWC Russia Managing Partner Mike Kubena (Amcit), PWC was informally notified on December 22 that the FTS had brought civil charges against the firm in connection with the firm's role as lead outside auditor of Yukos from 2002 to 2004. PWC has not yet received official notification, but has obtained copy of an indictment against the firm dated December 11, which accuses the firm of collaborating with Yukos in tax evasion. The charge appears based on the allegation that PWC exploited the difference between Russian accounting standards and US GAAP to Yukos' advantage, and in violation of Russian law. On December 25, business daily "Kommersant" in a front page story suggested that the case against PWC may lead to criminal charges being brought against the auditing firm, but Kubena said no such action has been taken to date.

[1](#)3. (SBU) Kubena calls the charges without substance and misleading. PWC was diligent in informing Yukos in those instances where they felt the firm was engaging in questionable tax accounting practices, and can prove this in court. PWC long ago sequestered all internal documents pertaining to its Yukos-related work, expecting them to be subpoenaed by the procuracy. In the event, the Russian Government has never seriously asked PWC to cooperate in the case against Yukos, although the firm is willing to do so. The head of PWC's Yukos audit team, Doug Miller (amcit) was

notified December 26 that he was personally named in the civil suit. Miller did not think he was under threat of arrest.

¶4. (SBU) In addition to the Yukos-related case brought on December 11, the firm has been in and out of court for the last six months in connection with another civil case brought against the firm concerning its internal bookkeeping practices in tax year 2002. PWC also maintains its innocence in this case. On a number of occasions, the firm seemed close to resolving this case in their favor, and even had the support of Finance Minister Kudrin at the last appeal hearing, but to no avail. Of some concern, at the last two appeal hearings (the last of which was in late November) the prosecutor began to introduce Yukos into the case, even though in one instance the judge ruled the argument irrelevant. In the last appeal, the prosecutor focused approximately 30% of his argument on PWC's work with Yukos. PWC believes that despite this, the judges were prepared to rule in PWC's favor, but we dissuaded from doing so at the last moment. The case now faces its final appeal, before the Supreme Arbitration court. The firm must file its appeal by mid-February, and while it has not yet done so, it will. FTS inspectors have already approached the firm in connection with tax years 2003-2005. No criminal charges have been brought, even though the sum involved would seem to automatically trigger criminal code provisions. This PWC chalks up to its good relations with the MVD.

¶5. (SBU) Comment. The Kommersant article draws broad analogies between PWC's role in the Yukos' case and the demise of Arthur Andersen in the Enron case, hardly a welcome development. It also comes amid strong speculation in the press here about a new round of accusations being brought against Yukos. Yet PWC has allies here -- it is the official auditor of firms comprising more than 50% of Russian GDP, including giant Gazprom, and has reached out to many of its client over the past few days for support. That said, the vehemence of the current upswing in anti-PWC public rhetoric is very disquieting, and PWC is looking to bring senior HQ management to bear in meetings with the GOR this week. At the firm's request, the Embassy is working to facilitate those meetings, and we expect to meet/brief PWC reps should their appointments come through. We have encouraged PWC to brief the Washington interagency, as well. The firm has otherwise not asked for further USG assistance; prefers to keep their problems out of the headlines; and is offering to cooperate fully with the Russian authorities.

BURNS